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REA

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Title : **REA**

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Executive Summary

REA is an American company that plans to enter the beauty and skincare industry. It wants to enter the skincare industry with a range of innovative products. However, we will focus on analyzing its moisturizing cream and creating a strategic plan for the product.

In our research we were able to understand how the firm studied the current conditions in the skincare and beauty industry to identify a potential business opportunity. We believe that the firm has been successful in recognizing the opportunity and developing a product that would be able to exploit the opportunity they identified.

We studied the general, industry and competitor segments to determine the vision, mission and goals for the firm. The strengths, weaknesses, opportunities, and threats presented by the segment were analyzed to shape our strategic decisions. Many opportunities for product development and promotion were envisioned. It was also determined that some of the threats and weaknesses can be mitigated by patenting the technology, trademarking the products and marketing it to the right customers with the right medium at the right time.

We determined that creating a MVP, generating capital and launch of the MVP are appropriate goals for the stage and size of the firm. We detailed the strategies to achieve individual goals and were able to identify opportunities for expansion of the business strategy for future growth. Based on our analysis of the internal environment, we were able to identify the value proposition for the firm along with the core competencies for short-term as well as long term above-average returns for the firm. The reputation, reach and knowledge of the founder along with the differentiated product are the core competencies for this firm. We suggest investing in the development of the differentiated product as the competencies to develop for future to maintain the competitive advantage for the firm.

We have also identified the customer for the initial offering for the firm. We created and conducted a survey to establish the market need, medium of promotion as well as a lucrative price point for the offerings. We were able to validate the customer persona as a potential target customer segment for the product. The data from the survey formed the basis of some of the strategic decisions we made and the directions we decided to take for the firm.

From the initial assumptions and survey results, the Marketing Mix 4P for the product was developed. Most of the initial assumptions were supported by the survey results. The amulet and truffles will be sold separately. However, these cannot be used separately and the sale of both products are highly correlated. The acceptable price ranges were found to be \$80 - \$120 per box of truffles that last for a month and \$150 - \$200 for an amulet. It was also determined that a combination of the 2 offerings should be sold as a starter kit to the customers.

The selling place was determined to be beauty product outlets, salons, and spas in upscale locations. Online sales and subscription-based sales should also be available for continued sales to the targeted customer segment. For promotion, the most cost-effective way was found to be digital marketing through social media and product website. These would also be used to engage the customers with education and product videos. The visual differentiation of the product was also determined to be a key driver for continued customer engagement. Social media influencers were identified as a key player in expanding the reach and acceptability of the product.

A high-level financial analysis was done to check the financial viability. According to the set assumptions, the breakeven would be achieved in the 4th year of market launch. However, this is subject to change based on product development and market response.

We have also determined that based on the response to the initial offering, we should revise the goals, strategies and tactics applied to fully exploit the identified customer segment while formulating goals and strategies for expanding the customer segments with extended line of products if needed.

The Lean Startup model is applicable to the product strategy as the product needs to start with minimum production, incorporate customer feedback, and continuously improve the operations.

INTRODUCTION

REA is an American firm that wants to operate in the beauty and skincare industry. Its main products are moisturizing, anti-aging, and calming creams, cooling eye gels, oil pouches, and face mask bird nests. However, we will be focusing our attention on creating and implementing a strategic plan for the moisturizing cream for entry in the skincare industry.

It is important to study the current market conditions in order to identify key factors that would lead to a potential business opportunity. One of the main issues related to moisturizing creams is its freshness, which is a crucial attribute in this type of product to guarantee positive results, most of the products come in bottles which last for about three months. This means that the product once open will start to age and therefore increasingly lose the effectiveness of its active ingredients. In the same way, the bottles that are displayed in the shops' shelves waiting to be bought by consumers are also aging at a slower rate. Wouldn't it be fantastic to have a product that could maintain its freshness throughout its complete life?

Another highly important issue is related to the environment; most of the moisturizing creams are sold in esthetically appealing plastic bottles; though this may be very convenient for the manufacturers, it is extremely harmful to the planet due to contamination. Our intent here is to come up with a packaging solution that is suitable for users but most of all friendly with the environment.

Finally, there is no market growth for moisturizing creams since the big players have not created anything new. This product has been sold in the same way for many years and we believe it's the right time to enter the market with a high-tech luxurious product that exceeds consumers' expectations.

It is now time to present our product; Zelos is the name of our moisturizing cream; it means "envy" in ancient Greek and this is the feeling that other people will experiment when they see the skin of the people using our product. The skin of our customers will look so clean and fresh that it will inspire others to seek the same results.

Zelos will be like nothing people have seen before, it will be delivered and used in a completely different way than what consumers are accustomed to. The moisturizing cream will be applied to the skin using a "Just in Time" process which is described as follows.

The cream will come in a "semi-ready" state in a truffle-like presentation. The truffle will consist of three parts which combined together will give it its unique result. The outer layer is a protective coat made of gelatin, sugar, wax, or even an edible material. The second layer is the cream itself which will be for moisturizing, calming, or anti-aging. The inner layer is the capsule which will be filled with actives, minerals, vitamins, oils, etc.

The three layers of the truffle need to be combined to create the moisturizing cream, in order to do this, we created a miniature "amulet" or blender. The amulet will mix and heat the components of the truffle so it can be applied smoothly on the skin. This just-in-time preparation of the cream is what guarantees its effectiveness in preserving the active ingredients.

Such a luxurious and innovative product must be delivered through a state-of-the-art packaging system. The truffles will be wrapped in foil paper to extend its shelf life as much as possible; in the same way, the truffles will be neatly stored in an elegant tin metal box.

VISION & MISSION

The firm's approach aligns with the resource-based model of above average returns. The firm has valuable resources with background and experience in the beauty/skincare industry. These resources have an understanding of the customer needs as well as the shortcomings of the current range of skincare products that are available in the market. They are uniquely equipped with resources to enter the market with a disruptive product which would help them achieve competitive advantage.

We thus feel that the vision of the firm should be ambitious as well as bold to fully convey the competitive advantage of the firm to all the stakeholders (internal as well as external).

Thus our vision statement for the firm is:

"To lead the beauty/skincare revolution with innovative technology to provide superior quality products."

Our mission statement delivers the emphasis we place on quality of the firm's products. This specifies that the firm is competing with superior products in a market segment to better serve the customer. The mission statement also instills pride in the employees by focusing on the superior services they bring to their customers.

Thus our mission statement for the firm is:

"To make each beauty experience special and precious."

EXTERNAL ENVIRONMENT

General Environment

In order to identify the opportunities and threats that affect our firm's strategic competitiveness, we need to analyze the external environment within its three dimensions: general, industry, and competitor.

The general environment is composed of seven segments that impact an industry and the firms within it: demographic, economic, political/legal, sociocultural, technological, global, and physical. Nevertheless, for the purpose of this study, we have analyzed three of them which we consider to be the most influential to our business.

- **Sociocultural Segment:** It is important to acknowledge the high expectations on quality that people have in cosmetic or skincare products. By no means are people willing to take health risks by applying products to their skin that may cause stains or allergic reactions. Therefore, it is extremely important for us to guarantee our customers that our product is safe and will have no type of side effect.
Another relevant factor to consider in this segment is an appropriate work-life balance. People have very busy lives which involve long work hours and family activities. However, they have increased their awareness in the importance of maintaining a healthy lifestyle. This means they make efforts to go to the gym, to stress relief centers, and purchase different types of products that take care of their bodies.
- **Technological Segment:** in the last few years, the world has witnessed the rise of groundbreaking technologies such as artificial intelligence, virtual reality, and 3D-printing. Some industries have already taken their first steps in discovering how this technology can enhance their performance. For example, Intel introduced "Intel True

VR” in the Winter 2018 Olympics to allow sports fans to view the competitions through drone cameras which stimulated a faster and stronger connection.

The beauty industry has also started implementing innovative technology in different areas. For instance, ModiFace Skin AI is an app that was launched in September 2016 to measure the precise state of skin and observe any potential skin changes. In the same way, L’Oréal launched the Kerastase Hair Coach in January 2017 which is the world’s first smart hair brush created to assess the quality of hair and monitor the effects of different hair care routines.

Fortunately, there hasn’t been any technological advances yet in the area that we are interested. The moisturizing cream market has remained stagnant for many years and this is the perfect time to introduce a new concept.

- **Physical Environment Segment:** most of the creams that you can find in the market are sold in plastic bottles which cause a great deal of waste and harm to our planet. Our plan is to utilize environmentally friendly materials in the packaging process to reduce contamination.

Industry Environment

The industry environment is the set of factors that directly influences a firm and its competitive actions and responses: the threat of new entrants, the power of suppliers, the power of buyers, the threat of product substitutes, and the intensity of rivalry among competitors.

- **Threat of New Entrants: Low**

The threat of new entrants is low due to the high investment in technology, R&D, and patents. Additionally, we have some very recognizable brands in the market such as Chanel and L’Oréal which would require the use of many resources to try to compete with.

- **Power of Suppliers: Low**

The power of suppliers is low due to the existence of a large supply in the marketplace generated by the requirements of many competitors.

- **Power of Buyers: High**

Consumers have high power since there are many competitors in the market with similar quality products. However, REA intends to satisfy specific needs better than the competition through a unique value proposition that will differentiate it from its competitors. This differentiation will reduce customers’ sensitivity to high prices.

- **Threat of Product Substitutes: High**

The threat of product substitutes is high due to the existence of several skincare products in the market. Additionally, our potential customers could enjoy a similar “ritual experience” by going to a beauty salon or spa.

- **Intensity of rivalry among competitors: High**

The rivalry among competitors is high due to the existence of strong brand names in the market as well as the loyalty of the consumers to these firms. However, we believe that an innovative concept could disrupt the market and gain attention from all people who value high-tech quality products.

The interactions among these five forces will determine the industry’s profit potential and will influence the strategic actions that we take to try to achieve above-average returns.

Competitor Environment

Understanding the firm's competitive environment complements the insights provided by studying the general and industry environments. Our goal here is to identify who our main competitors are as well as their strategies and core competencies which make them successful.

- **Chanel**

Chanel is a global leader in the fashion industry. It has been extremely effective in preserving their high-quality luxury brand which sells fine jewelry, fragrances, cosmetics, and skin care products. Chanel has benefited from having strong management as well as the contribution of an extremely talented creative director who is an icon in the fashion world: Karl Lagerfeld.

- **La Mer**

La Mer is also a very prestigious brand in the beauty industry. It sells fragrances, cosmetics and skin care products. Its creams were created by an aerospace physicist Max Huber who came up with the formula right after suffering an accident which severely burned his face. As a result, he created his legendary Crème De La Mer which is one of the most recognized moisturizers. The firm spends little money on advertising and they prefer to promote their products their word of mouth.

- **Lancome**

Lancome is a luxury brand which has a classic and elegant image. The company sells perfumes, cosmetics, accessories such as hair brushes/combs, and skin care products. The firm has rich experience and a large scale of research centers which have created 9 lines of skincare products each of which has a specialty. The firm spends heavily on advertising by hiring famous models or celebrities such as Uma Thurman and Isabella Rosselini.

In conclusion, the results of these three analyses influence the firm's vision, mission, and strategic actions.

A firm cannot directly control the factors that influence its external environment; however, it can learn how to gather the information needed to understand all segments and their implications for selecting the right strategies for its success.

VALUE PROPOSITION

In our research about the firm, we felt that the main emphasis for the firm is the quality of the product along with innovative way of delivering the product to customer. The product promises to deliver the active ingredients in the most potent form with their patented just-in-time preparation of the application dosage. Delivering a quality product is the value proposition offered by the firm to the customers.

We also believe that the firm wants to create a unique experience for the customer with the design of the product and the application device. This is another aspect that adds to the value proposition of the product offered by the firm.

CORE COMPETENCY

After completing the internal and external environment analysis, we believe that the firm has a competitive advantage over its competitors with the firm's differentiated product. The reputation, reach and knowledge of the founder along with the differentiated product are the core competencies for this firm. The firm offers a completely different product in an existing market segment of skincare. The product brings a visual differentiation than the offerings in the market. We believe this unique look and feel of the product is the core competency of the firm. We also believe that these features of the product can be exploited in the marketing of the product.

Apart from the visual differentiation, the product also brings a new mechanism of preserving the potency of the ingredients of the product. The technology for the delivery of the product is also a differentiating factor for the product. It also adds a new application technology with the product. The patented technology and the differentiated product line with the core technology is in our analysis the core competency of this firm.

GOALS

The following are the high-level goals of the firm. The plan is to create strategies and plans under each goal and create an overall strategic plan for a sustainable establishment.

1. **Creating a viable product:** Starting new career in industrial markets, it is important to have a product with necessary features that satisfies the early adopters.
2. **Procuring investments:** The founder has already procured the seed capital of \$1.2 million. The goal would be to procure approximately 10x the seed capital, i.e., around \$10-12 million by the first quarter of 2020
3. **Successful initial market launch:** This goal defines the future of the company.

GOAL 1: Creating a viable product

For a startup, this goal helps in establishing a platform to understand the core value proposition of the product and attracting the investors. It also helps in estimating the production costs. Following are the sub-goals that drive the main goal:

1. Creating a prototype: This helps in designing the product, evaluating the design and testing. We choose to 3D print the applicator as it is the most cost efficient design technique for building a prototype.
2. Defining the final configuration of the product prototype.
3. Identifying the trustable potential partners and signing a Non-Disclosure Agreement
4. Creating a short video that best describes the product and its usage.
5. Gathering potential customer feedback: This helps in R&D of the product and also for assessing the initial reception of the product.
6. Ongoing testing, research and development incorporating the feedback.

GOAL 2: Procuring investments

We have determined that the firm should work on creating a portfolio of future offerings which can either be an extension of the initial offering or a new line of products that help the firm

exploit the same segment while breaking into other customer segments. The firm should aim to engage the R&D department in this activity and continue to invest in product differentiation as a core competency. The well researched portfolio of these possible avenues of growth for the firm should be used to pitch the firm to financial institutes for generating capital.

GOAL 3: Successful initial market launch

For a new product, as good as the product is, it is imperative to put the word out there and let the potential customer know the features & benefits of the product and how they can buy it. Thus, the marketing plays an important role in the success of the product. This also involves deciding on the distribution channels. The plan should be flexible enough to incorporate the customer response and feedback and make changes as necessary.

A thorough market research is absolutely essential in the marketing process. However, considering the limited time and resources, it is also important not to lose focus and do research in a way that only the relevant aspects are being analyzed. The research should include places where the potential customers, distributors or partners are available so as to maximize the relevance of the results:

- Interview beauty product sellers located in malls and outlets in select upscale locations.
- Interview potential customers based on the marketing persona created. This will include the study of focus groups with the product prototype, and face-to-face interviews to learn the customer behavior, response, and feedback.
- Statistics and trends of luxury beauty and skincare product users.
- Interview upscale salon owners and skincare experts.

The initial market launch and the response evoked from customers should be carefully studied and incorporated in the strategy. This will be an iterative process, however, there will be recurring trends that should be studied and used for exploiting opportunities. Depending on the scale of data, it can be decided how to analyze this data – whether to use systems, hire external consultants, etc.

CUSTOMER PERSONA

We used the value proposition along with the goals of the firm to create a persona for the customer. After discussing a few customer persona we decided to focus on one segment of the market in the initial launch of the product.

Our customer persona is a college educated working woman who is in her early 30's. She is a consumer of luxury goods and services. She loves to treat herself and is a self care advocate. She has a busy social life and is available through all major social media outlets. She learns about new products from social media outlets like instagram from social media influencers. She likes to use natural products which are cruelty free. She cares deeply about the environment and tries to buy products created in sustainable manner. In our analysis we found that the needs of this particular segment of customers is being fulfilled by our product. We believe that the firm can capture this customer segment with their initial offering.

SWOT ANALYSIS

For developing a viable strategy, it is important to do a thorough analysis of the internal and external environments. The strengths, weaknesses, opportunities, and threats are listed down in order to assess the core competencies, decide the value proposition, and formulate the strategies.

Strengths

- The most important factor that works in favor of the firm is the knowledge and experience of the founder. His years of experience in developing high-quality beauty products and business acumen combined with the power of his network is a very valuable strength a startup firm can have.
- The key differentiator of the product is its uniqueness. There are no similar products and this gives the product the first mover advantage.
- The innovative technology, product specification, and processes can be protected with Intellectual Property protection by patenting the product. This will make it difficult for competitors to imitate and build barriers for new entrants.
- A startup is more agile than an industrial behemoth. Decisions can be made faster and coordination of activities will be easier.

Weaknesses

- The product requires the customer to change their behavior on 3 different fronts – the purchase, usage, and continued engagement. There will be an inertia to move away from existing products and routines.
- The huge R&D expense and initial setup and marketing costs for developing a new product can be financially strenuous. Thus, the exit costs are high.
- It will take a while to reach the expected operational efficiency. This could affect economies of scale and scope.
- Customers would expect fast results considering that the concept is new. This may not be the case as every customer's response to the product will be different and, in some cases, may take a longer time to give identifiable results.
- As the product is patent-protected which is a time-consuming process, it will take longer for taking the product to the market, thus increasing the competitive risk from other innovative products.

Opportunities

- The market for quality beauty products is growing at a very fast rate. The growing preference of Xennial generation (Generation X and Millennials) to use safe and quality products opens up a wide range of options in terms of product. This generation also has a strong preference for responsible products.
- There is a trend towards a high degree of innovation in beauty products which works in favor of REA when it comes to available technology and speed of adoption.
- The nature of the product demands high involvement and engagement of customers. The switching cost is high for the customers and the investment in the amulet helps in creating an endowment effect which could help the customers stick to the product.
- Being an innovative product promising better results and experience than the existing products, there is a high level of excitement among the customers to try out the product.

- Word-of-the-mouth publicity could prove to be the strongest influence for the buying decision, thus celebrity endorsements and recommendations from influencers will speed up the adoption.

Threats

- The idea and technology seem very promising; hence, the competitors and new entrants could jump at the opportunity and imitate the idea or product and patent protection may not be able to cover all the aspects. However, none of the incumbents are device-oriented; hence, this risk would be mitigated with their inexperience in device-oriented skincare.
- The beauty industry is an ever-evolving one with new products using disruptive technology changing the market dynamics. The competitive advantage should be sustainable.
- The brand image of the incumbents is a tough barrier to get through. As the product is competing in the high-end beauty segment where customers are very particular, choosy, and loyal to the brands that they are currently using.
- When it comes to skincare, there is a strict regulatory scrutiny. It will take significant time and resources to get past this.

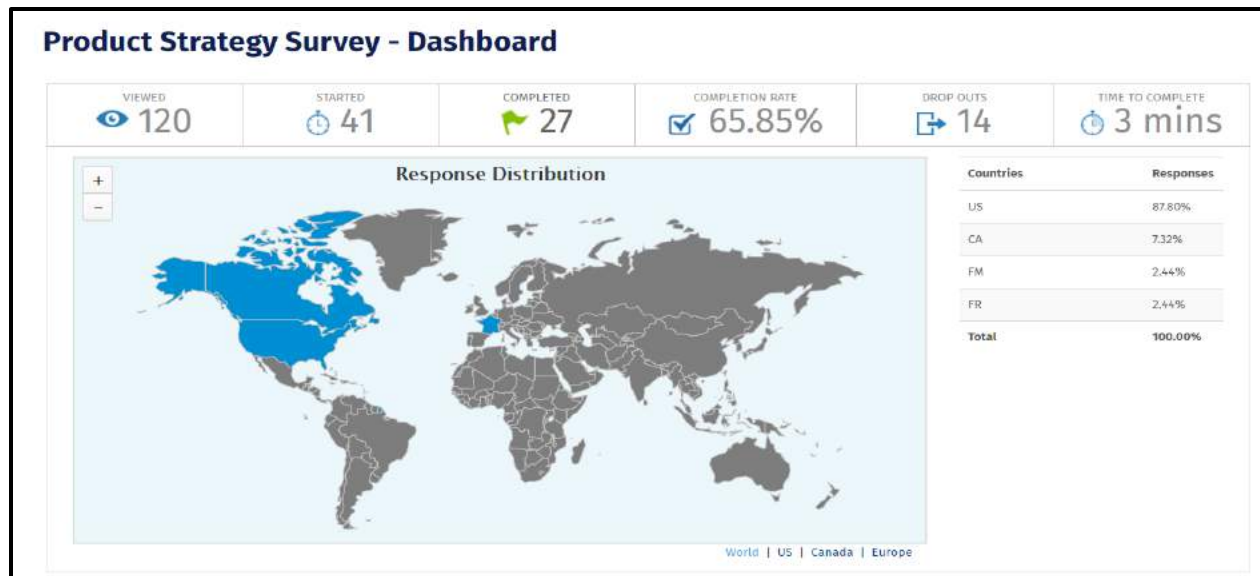
SURVEY

We conducted a survey to see the acceptability of the product with the identified customer persona. We designed the survey and tried to reach the customers matching our persona to receive their feedback on the firm's offering.

We tried to keep the survey to 10 questions to encourage our target audience to complete the survey. The survey was designed in four sections to understand the needs of the customer, the current skincare products they use, the reaction to the firm's offering and demographic data about the survey taker.

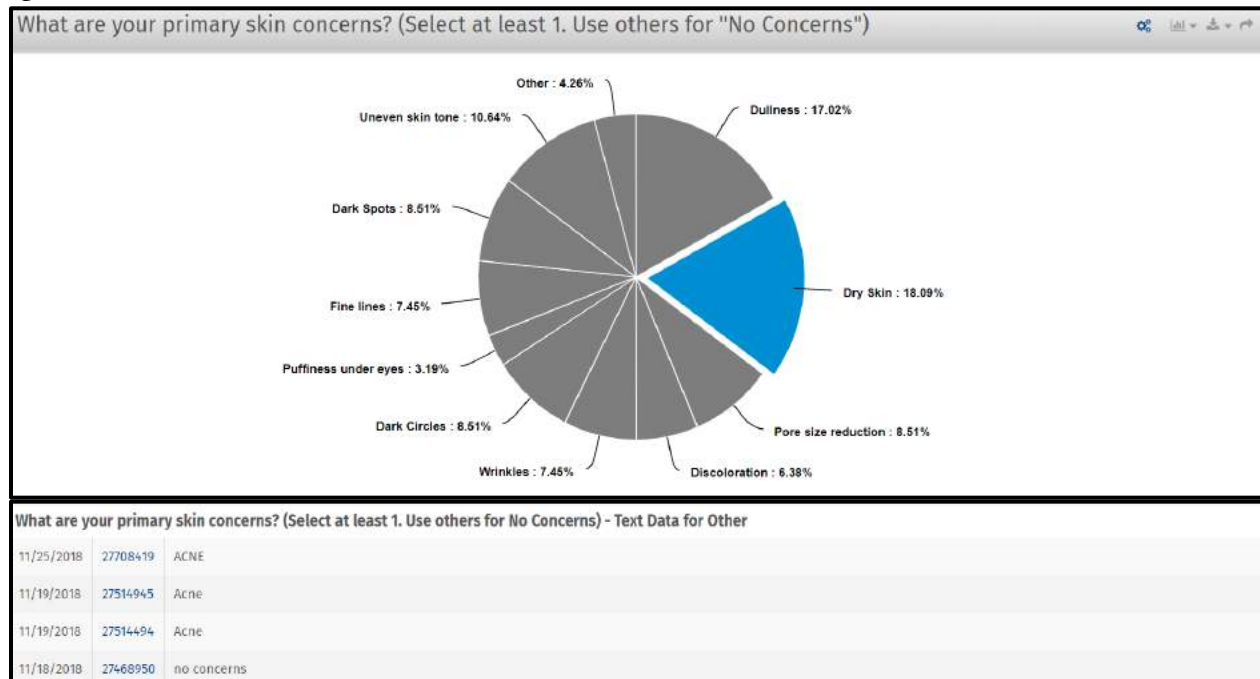
The first section tries to understand the needs of the targeted customer segment and see if the initial offering is a match for the identified customer segment. The next section intended to learn about the products they use and how they hear about new offerings in the beauty industry as well as understand their shopping behavior. The third section introduced the users to the firm's offering and tried to price the offerings from the firm. The fourth section collected demographic data to identify the survey taker as the identified customer segment.

The **results** of the survey are as below:



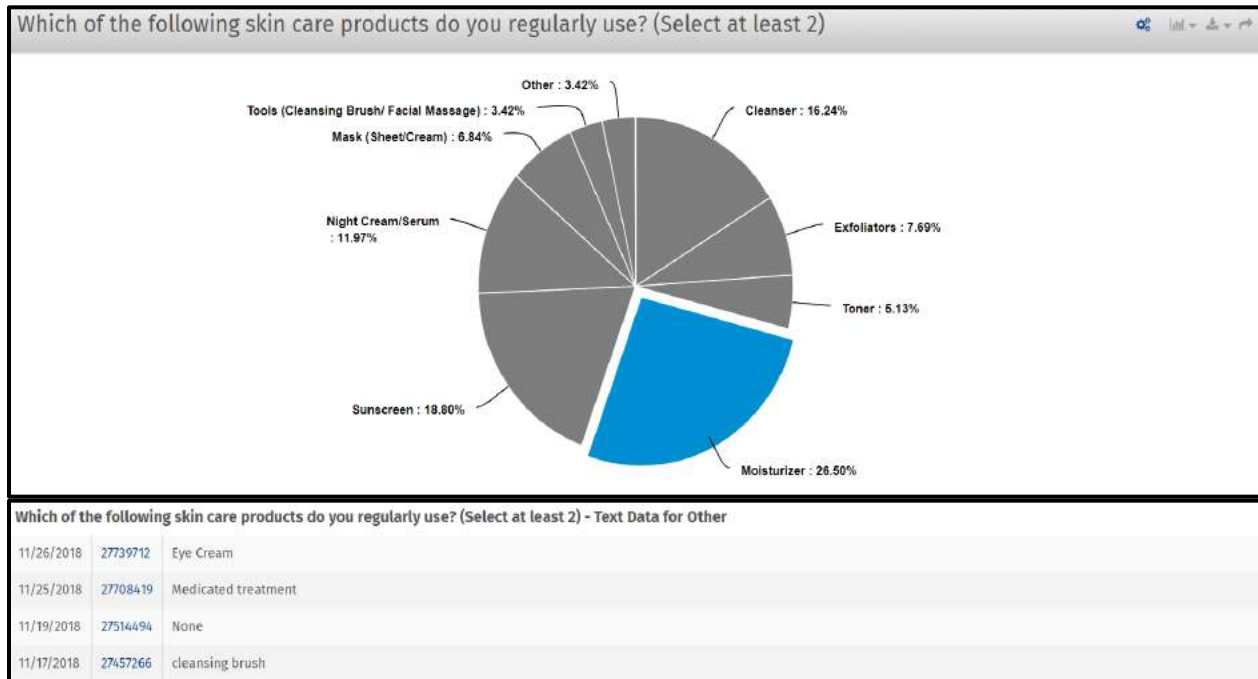
We are successful in reaching out to people!! 27 people responded to our survey and helped us in gaining this potential feedback.

Question 1:



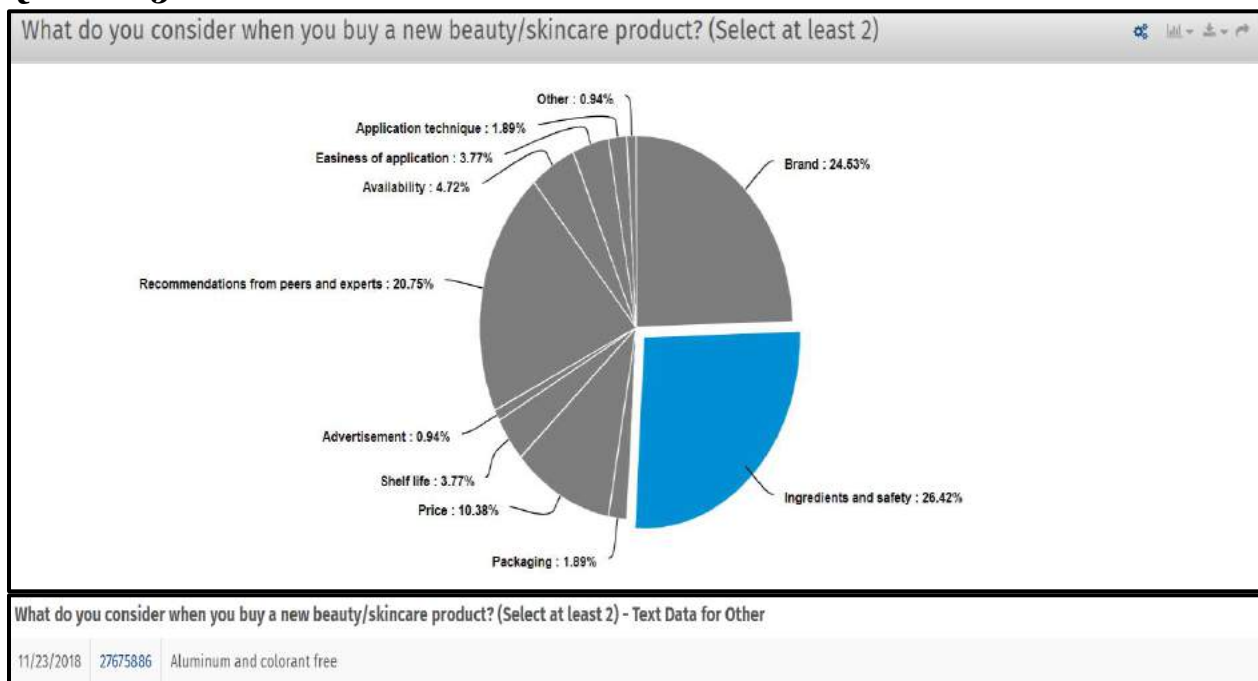
The common skin concerns heard from most of the people are: dry skin, dullness and uneven skin tone. Our products addresses most of these concerns. Since acne is mentioned more in category of others, there are chances that more people are suffering with it and hence, we are planning to consider this in our future surveys. This helps in meeting the requirements of a wide customer area.

Question 2:



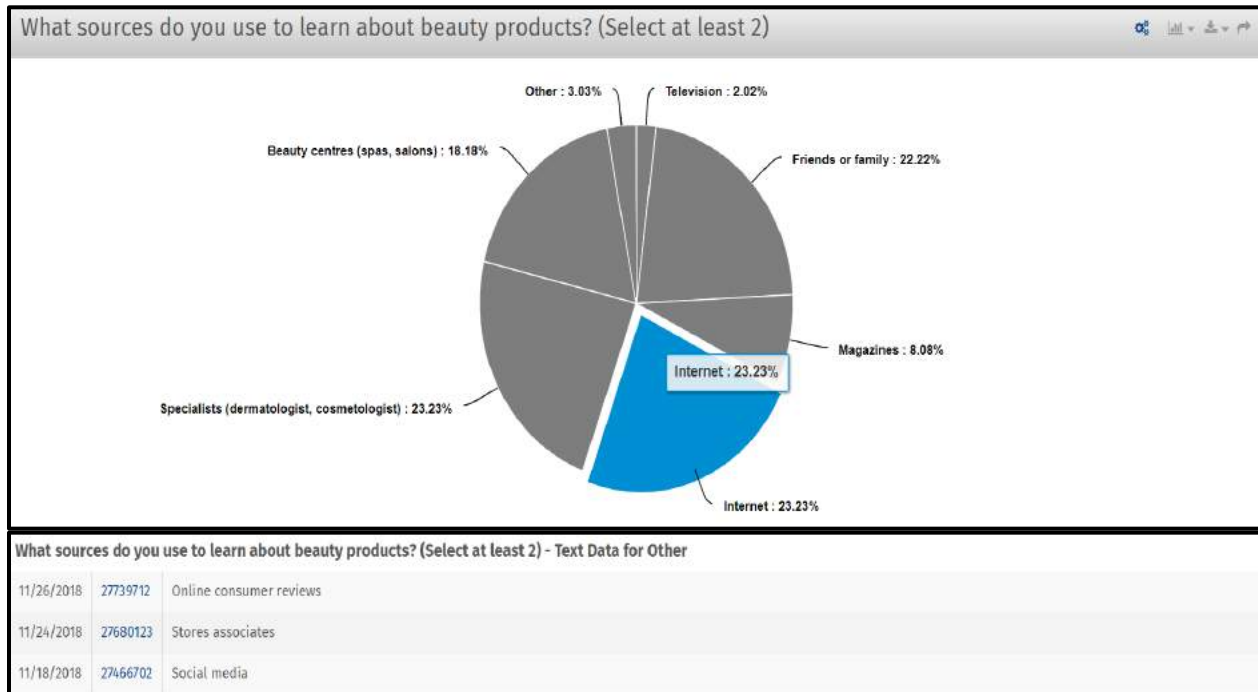
The most frequently used product is Moisturizer, which aligns with our initial product creation.

Question 3:



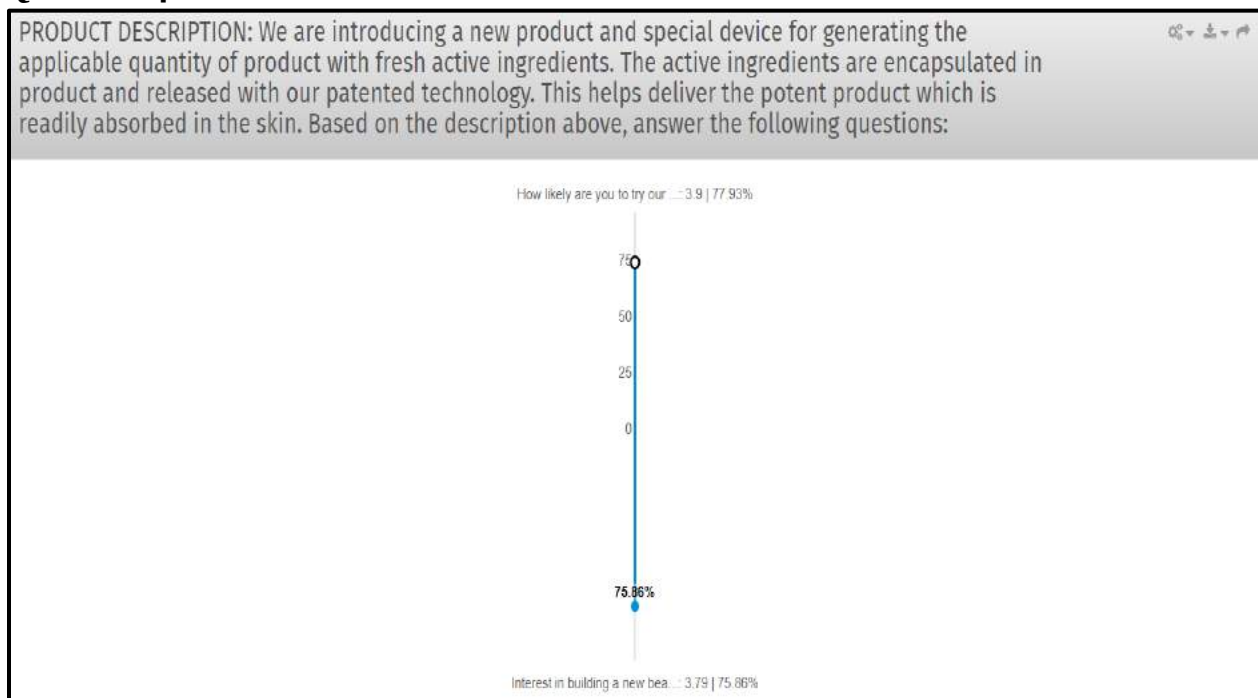
Ingredients and safety, Brand and Recommendations from peers and experts are the factors that customers consider when buying a new beauty/skincare product. Our product is developed and promoted by considering all these factors.

Question 4:



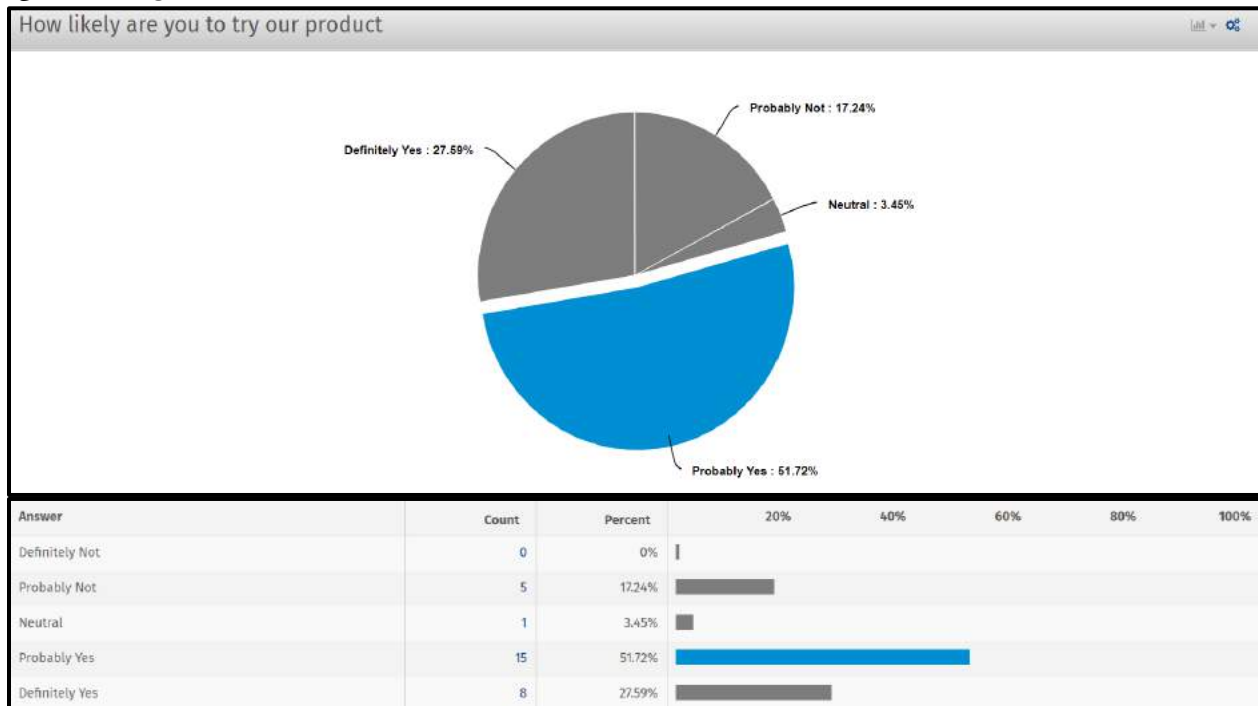
The major sources from which people learn about new products are: Internet(23.23%), Specialists(23.23%) and Friends/Family(22.22%). It is necessary for a startup to learn different goto market strategies as it has less funding initially. It can target specific market areas depending on this survey.

Question 4:



We are happy to see that 77.93% of people are interested in trying our products and 75.86% are interested in building a new beauty routine.

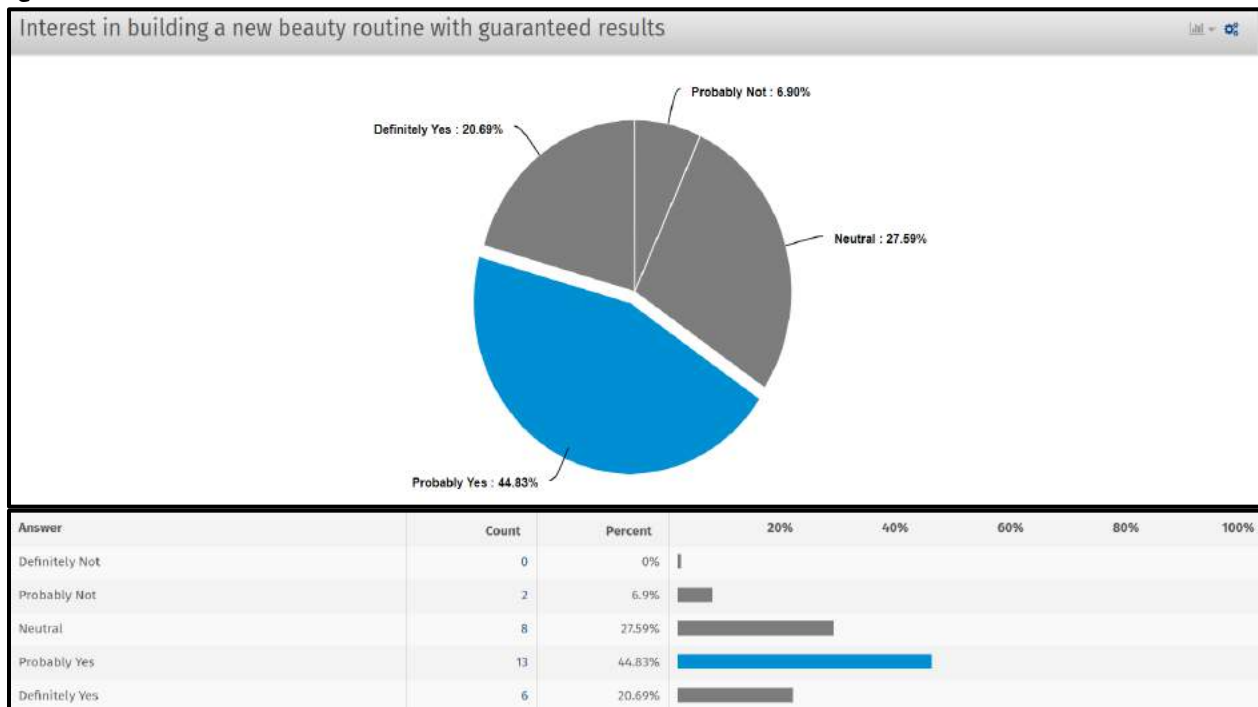
Question 5:



- More than one fourth of the people surveyed are definitely willing to try the product.
- Half of the people surveyed are inclined towards trying it.
- Less than 5% people responded neutrally.
- 17.24% of the people surveyed are not willing to try the product.
- As as initial achievement, there are no people who opted for 'Definitely not' option in trying the product.

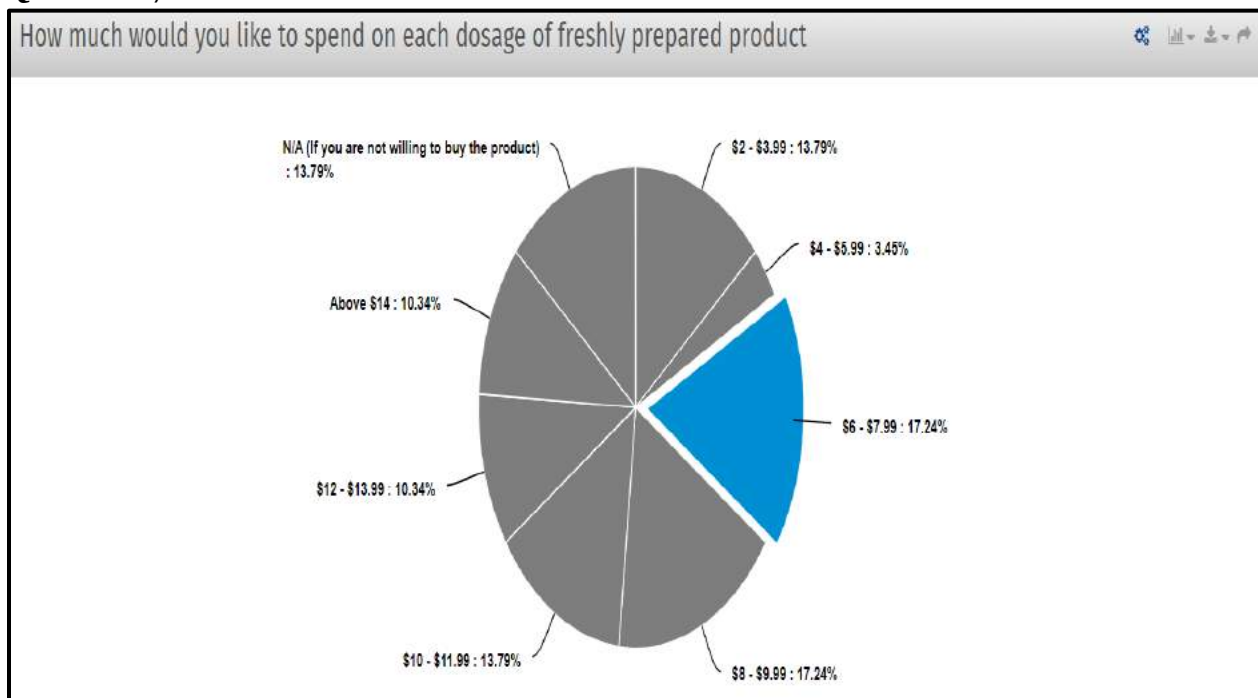
Results may vary if more people are involved in the survey. But this results show that people are willing to trying our product. In terms of launching product to the market, we focus in retaining the customers who are in 'Definitely yes' category and try to capture the people in categories of 'Probably yes' and 'Neutral'.

Question 6:

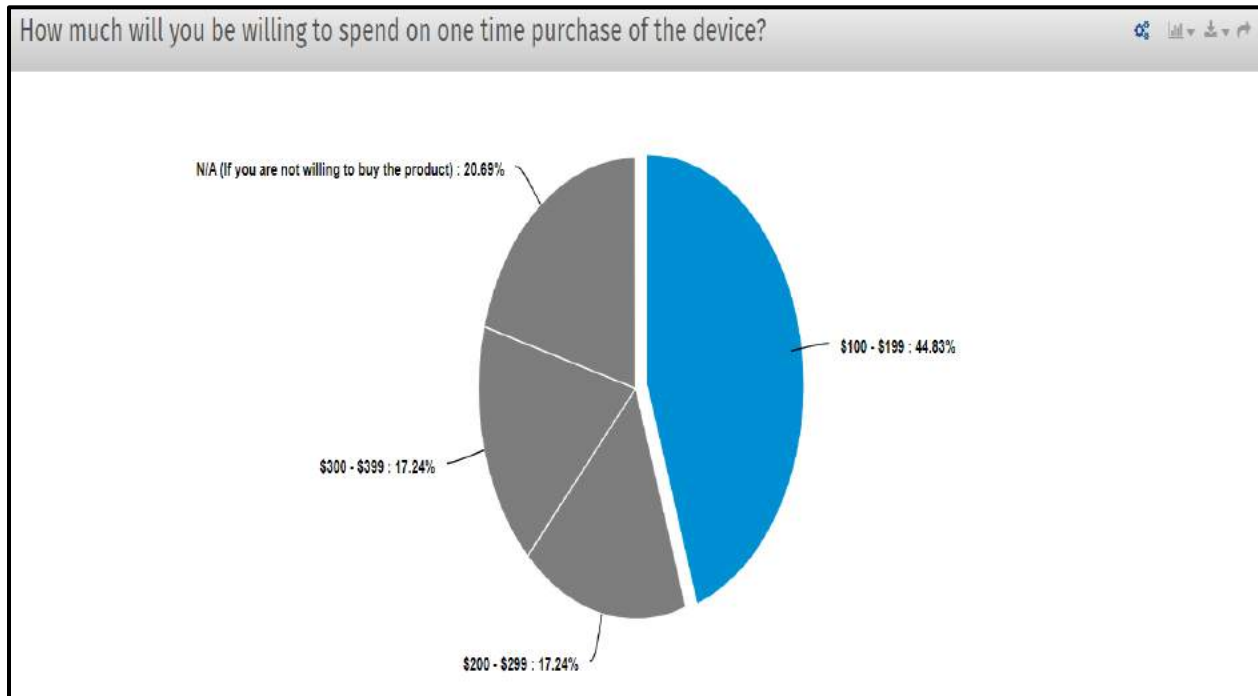


When we compare this results to the results obtained from previous question, there is more willingness(Probably yes+Definitely yes) to try the new beauty routine which again can be considered as an add-on to the product reception.

Question 7:

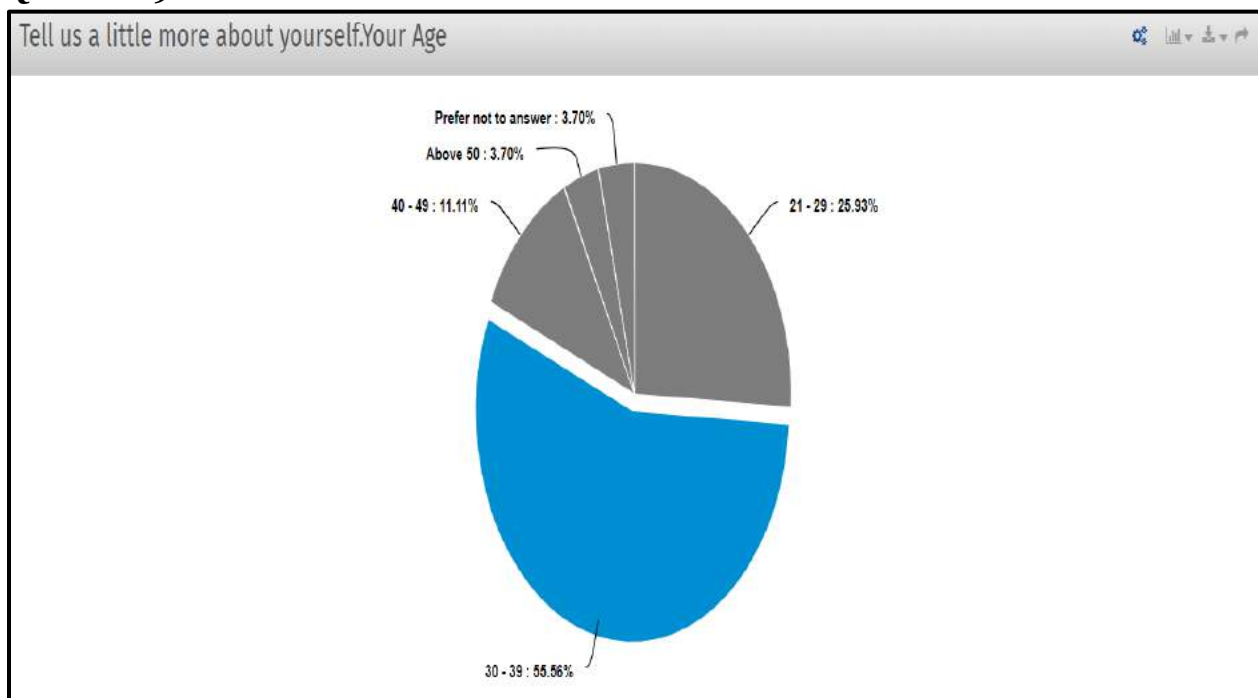


Question 8:

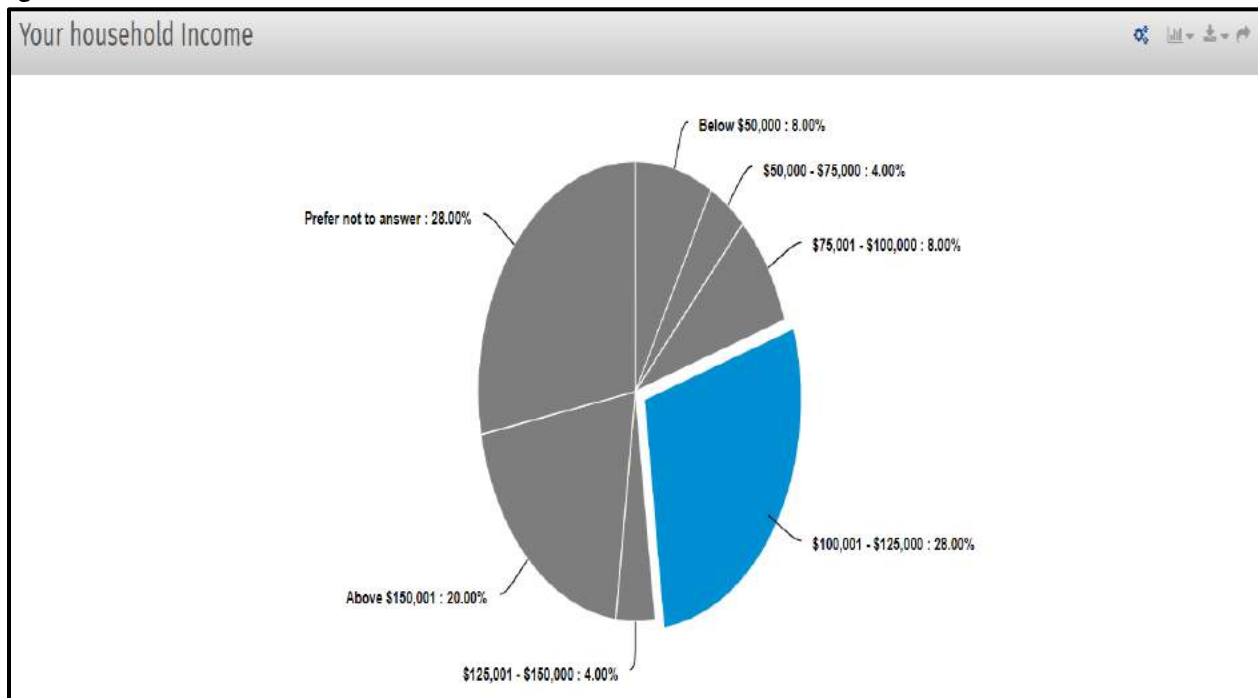


Q7,Q8: These responses helped us in verifying whether our assumption of product prices are aligned with what customers are willing to buy our product. People are willing to pay \$6-\$10 for the dosage and \$100-\$200 for the applicator(Amulet).

Question 9:



Question 10:



These responses helped us in verifying whether we are successful in reaching out to our target customer personas for the survey. The results showed that we are successful in it. 30-39 is the age range and \$100,001-\$125,000 is the household income.

MARKETING STRATEGY - 4P's

Product

The product is named Zelos which means that which invokes jealousy. The product name communicates the product differentiation – that which gives a sense of pride for the users that they have the unique product and experience that many others don't. The initial product will be the amulet and a sample pack of truffles. The packaging of the product has to be premium that it wows the customer and make them want to try the product. The customers can purchase the truffles separately in packages that last for a month. The amulet is a one-time purchase item for the life of the machine. To start with, it is better to stick to the basic product ranges – hydration, anti-aging, and calming. Taking into account of the response and feedback of the customers, the scale of production of the current products and future products, if any, can be decided.

Price

According to the initial research and survey, the most acceptable price for a box of truffle for a month is found to be \$80 - \$120 and amulet for \$150 - \$200. Although the studies concluded this price, the fact to be taken into consideration here is that the product is placed in the luxury segment and once a product is launched at a particular price, it is difficult to be priced up. Hence, the price point has to be carefully chosen by extensive research on what the customers are willing to pay and how competitors in the segment price their products.

Place

The distribution and the customer buying point is decided based on where the target customers go shopping. For the initial launch and distribution, only select upscale locations with a large population of the target audience should be selected. This selection should not be based on assumptions but on objective data found from the surveys and interviews. The product can be displayed in small booths or stalls inside the beauty stores such as Sephora or Nordstrom where knowledgeable staff give a demonstration and educate potential customers.

Many of the target customers are particular about their beauty routines and care about their skin and wellness. Hence, it is assumed that they will be regular visitors of luxury spas and beauty salons. Many customers look up to these service providers to provide advice on beauty products and skincare. The service providers can thus be considered influencers in the buying decisions and hence, it is a good idea to bring them on board as partners who share margins on the selling of the product. Distributing the product through a salon or spa also has the added benefit of the customers getting a chance to try out the product before they make the investment.

As the product is available only through select outlets and regular replenishment of the truffles are required, the brick-and-mortar model alone would not sustain. Distribution of truffles has to be done online with delivery to users so as to retain the customers. A subscription model is envisioned with regular delivery of the product to the customer. An important factor to be considered here is whether there is the capability to meet the increasing demand.

From the feedback from the initial launch, reception, response, and feedback of customers, exclusive stores can be planned down the line – in 5-8 years.

Promotion

Being a new product on the market, promotion is one of the most important factors that decide the success of the product. Digital and social promotions would be the most cost-effective way to achieve this.

Luxury product advertisements are mostly found in glossy magazine covers. However, this could prove to be an excessive expense and it will be difficult to track the effectiveness of this medium. One way to get over this is to include promotional offers and subscription offers along with the advertisement.

The staff of salons, spas, and beauty product outlets should be educated about the features and benefits of the product so that they will be able to promote the product to the customer at the point of sale, which is an important point in the customer journey when it comes to decision making.

The most effective way is, however, through online channels, such as social media websites such as Facebook and Instagram. Being a beautiful product, customers who are active on the media may post and share it on their pages. Beauty bloggers and posters can be targeted and asked to try the product and give their review. Some of the target audience would prove to be influencers and advocates of the product. These thought leaders and advocates would be the early adopters and should be continuously engaged in the promotional process and even in the co-development in the later product development or expansion of product portfolio.

Content creation through the product website and beauty blogs is another way to reach the target customers. Product usage videos should be uploaded to the website where customers can see how the product works.

Interviews of founder and key personnel in mainstream media, beauty-related magazines and shows would also generate interest.

FINANCIAL ANALYSIS

A high-level financial analysis is done to check the financial viability. This is especially important as to show to any investors interested in financing the product. Also, it will give a vague idea on the important targets and general strategy to be followed which aligns with the original strategy.

The financial analysis table for the next 5 years is given below:

Year	2020	2021	2022	2023	2024	/unit
Income						
<i>Amulet</i>						
Units	100	500	3000	8000	15000	
COGS	(\$4,000)	(\$20,000)	(\$120,000)	(\$320,000)	(\$600,000)	(\$40)
Revenue	\$20,000	\$100,000	\$600,000	\$1,600,000	\$3,000,000	\$200
<i>Truffle</i>						
Units	1200	7200	43200	139200	319200	
COGS	\$ (12,000)	\$ (72,000)	\$ (432,000)	\$ (1,392,000)	\$ (3,192,000)	(\$10)
Revenue	\$ 120,000	\$ 720,000	\$ 4,320,000	\$ 13,920,000	\$ 31,920,000	\$100
Gross Profit	\$ 124,000	\$ 728,000	\$ 4,368,000	\$ 13,808,000	\$ 31,128,000	
Expenses						
Marketing & Sales	\$ (3,000,000)	\$ (3,000,000)	\$ (3,000,000)	\$ (3,000,000)	\$ (3,300,000)	
Infrastructure and maintenance	\$ (2,000,000)	\$ (3,000,000)	\$ (6,000,000)	\$ (7,200,000)	\$ (4,320,000)	
Research and development	\$ (3,000,000)	\$ (3,000,000)	\$ (3,000,000)	\$ (2,400,000)	\$ (1,440,000)	
Human resources	\$ (300,000)	\$ (750,000)	\$ (750,000)	\$ (900,000)	\$ (1,080,000)	
Legal, insurance, and licenses	\$ (200,000)	\$ (300,000)	\$ (300,000)	\$ (300,000)	\$ (240,000)	
Total Expense	\$ (8,500,000)	\$ (10,050,000)	\$ (13,050,000)	\$ (13,800,000)	\$ (10,380,000)	
Net Profit	\$ (8,376,000)	\$ (9,322,000)	\$ (8,682,000)	\$ 8,000	\$ 20,748,000	
Investments	\$ 10,000,000	\$ 10,000,000	\$ 15,000,000			

ASSUMPTIONS & ANALYSIS METHOD

- The COGS (Cost of Goods Sold) for amulet is \$40 and for a pack of truffles is \$10.
- The selling price is \$100 per pack of truffles and \$200 per amulet.
- Customers will continue using the amulet for the financial analysis cycle.
- An amulet is associated with one pack of truffles per month. This adds up annually.
- COGS is only taking into account the variable cost.
- Apart from the COGS, the other expenses considered are divided into 5 sections:
 - Marketing & sales
 - Infrastructure & maintenance (includes property, devices, software systems, etc.)
 - Research & development
 - Human resources (regular personnel expenses that include the Cost to the Company by the personnel)
 - Legal, insurance, and licenses
- Taxes are not considered.
- Investments are external and are not reinvestment of the revenue.

- In the table, the black font indicates cash inflow and the red font in parentheses indicates cash outflow.
- Year-by-year strategy and focus
 - 2020: Focus on producing a viable product. Marketing costs will be high as new partners and distribution needs to be made. The revenue is balanced between all the components. It is assumed that the prototype is tested for the basic functions.
 - 2021: Infrastructure and personnel costs increases due to expansion.
 - 2022: Heavy investment in infrastructure & maintenance
 - 2023: This is the time of scaling up of operations. Variable costs are getting high.
 - 2024: This is the time of further scaling up of operations. Variable costs are overpowering.
- Marketing and sales expenses are kept steady as the COGS is separately calculated which could include elements of sales as well. This would be canceled out by the decrease in variable cost due to increase in efficiency and large-scale production. However, this need to be further analyzed and updated during the course of the strategizing.

MARKET DATA CONSIDERED

- | | |
|---|------------------------|
| • Revenue from cosmetics in the U. S. | : \$ 62.46 billion USD |
| • Share of skincare products in cosmetic market | : 37% |
| • Share of online beauty products sale | : 10% |
| • Cosmetic market growth | : 4 – 5% |
| • Global luxury skincare market growth | : 12% |
| • Online cosmetic sales growth | : 24% |
| • North American market share for L'Oréal | : 25% |
| • Revenue of L'Oréal | : \$ 28.6 billion USD |
| • L'Oréal estimated sales | : \$ 227 billion USD |

KEY LEARNINGS

Lean startup philosophy learned in the class was applied while developing the strategy. As Zelos is a luxury product supposed to “wow” the customers, a minimum viable product which does not have the full functionality or is not looking at its best may not be a good idea. However, Lean startup methodology can be applied for research and production. Only minimum quantity of products needs to be produced. Taking into consideration the customer feedback, the product can be further improved. This is an iterative process.

CONCLUSION

A thorough analysis of the external environment and the implementation of analytical tools helped us determine our core competencies and value proposition which are the pillars of our differentiation and ultimately the reasons why a customer would select our brand over another.

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